

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7722

In Re Tariff filing of Catamount/Bolton Water and)	
Sewer Company, LLC requesting a 269% increase in its)	Hearing at
rates, to take effect on a service-rendered basis April 1,)	Montpelier, Vermont
2011)	June 28, 2011

Order entered: 7/8/2011

PRESENT: Lars Bang-Jensen, Hearing Officer

APPEARANCES: Geoffrey Commons, Esq.
for Vermont Department of Public Service

Joslyn Wilschek, Esq.
Primmer Piper Eggleston & Cramer PC
for Catamount/Bolton Water and Sewer Company, LLC

I. INTRODUCTION

Catamount/Bolton Water and Sewer Company, LLC ("Water Company"), filed a rate increase request with the Public Service Board ("Board") seeking a 269% increase in its rates, to take effect on a service-rendered basis April 1, 2011. Following a recommendation by the Vermont Department of Public Service ("Department"), the Board issued an Order suspending the effectiveness of the tariff and opening an investigation on March 25, 2011.

On June 10, 2011, the Water Company and the Department entered into a Memorandum of Understanding ("MOU") which provided, among other things, for a smaller rate increase and a two-stage process for phasing in the rate increase. In this Order, the Board approves a 126.76% rate increase associated with an annual cost of service of \$125,775 to take effect immediately upon the entry of this Order. The Board also approves in principle an additional 38.72% rate

increase associated with an annual cost of service of \$173,920 to take effect upon the commencement of debt service payment obligations on a loan from the Vermont Economic Development Authority ("VEDA") that will be used to fund required improvements to the water system, which rate increase is expected to occur in either December 2012 or December 2013 (depending on when the water system improvements are completed).

II. PROCEDURAL HISTORY

On January 24, 2011, the Water Company submitted a proposed tariff to the Board seeking a 269% increase in its rates, and a change in billing practices, to take effect on a service-rendered basis April 1, 2011. After the Clerk of the Board notified the Water Company of deficiencies in its submission, the Water Company made a revised tariff filing on February 3, 2011 (Tariff Filing #8209-A). Notice of the proposed rate increase was provided to each customer by the Water Company. The Water Company subsequently filed a letter on March 18, 2011, in which it withdrew its request for a change in billing practices and clarified other matters related to its tariff filing.

On March 17, 2011, the Department informed the Board that it had reviewed the filing and, pursuant to 30 V.S.A. Section 225, recommended that the Board suspend the proposed rate changes and open an investigation.

On March 25, 2011, the Board issued an Order suspending the tariff filing, opening an investigation and setting a date for a prehearing conference.

A prehearing conference was convened on April 7, 2011. The Water Company filed the prefiled testimony of Larry Williams, together with four exhibits, on April 22, 2011.

A public hearing was held on May 18, 2011, for which notice was provided on April 27, 2011.

On June 10, 2011, the Water Company filed the MOU and a supporting exhibit. Notice of a technical hearing was given on June 16, 2011. By memorandum dated June 23, 2011, the Clerk of the Board provided the parties with a list of the Hearing Officer's questions and information requests. The technical hearing was held on June 28, 2011.

Testifying for the Water Company at the technical hearing were Meddie Perry (a senior hydrogeologist with VHB/Pioneer), Larry Williams (the managing partner of the Water

Company), Kimberly Norland (the CFO and Controller of the Water Company), and Ray Koliander (who assisted the Water Company during this investigation and in preparing the cost of service and rate schedule exhibit to the MOU). The prefiled testimony and exhibits of Mr. Williams, the MOU and its supporting exhibit (exh. Joint-1 and exh. Joint-MOU-1) and two additional exhibits of Mr. Williams were admitted into the record at the technical hearing. Susan Martin testified for the Department at the technical hearing.

On June 30, 2011, the Water Company, on behalf of the parties, filed an addendum to the MOU, which is admitted into the record as Exhibit-Joint-2.

III. PUBLIC HEARING AND COMMENTS

A Public Hearing was held at the Smilie Memorial School in Bolton, Vermont, on May 18, 2011. Between two and three dozen people attended the public hearing, and 11 people spoke at that hearing. In addition, the Board received more than 30 comments by letter or email.

The vast majority of public comments opposed the 269% rate increase in the Water Company's tariff filing. Many noted the financial effect such a large rate increase would have on them. There was also substantial concern expressed about the quality of the water (in terms of chemical disinfectant, mineralogical, and radiological contamination), about the service provided by the Water Company and about the delays in addressing these deficiencies. At the public hearing, a few customers spoke in support of the proposed rate increases to the extent that the proposed improvements to the water system would fully resolve public health and safety issues related to water quality. Other customers requested that State authorities investigate less costly solutions that might be available to address the water system's deficiencies. Many of the comments also complained about the Water Company's high rates for sewage services. Some of the comments criticized State authorities as well as the Water Company for poor oversight of the water system and the water and sewer business. There was also concern expressed in written comments to the Board about whether the Water Company was billing all users of the water system.¹

In addition, the Prudential Committee for Bolton Fire District #1 submitted a letter to the Board on May 19, 2011, in which it advised the Board that it had been elected by residents of the

1. Mr. Williams responded to this issue in his prefiled testimony. Williams pf. at 9-10.

fire district on March 16, 2011, to investigate the purchase of the Water Company. The Prudential Committee also commented on the proposed rate increase and raised questions (as other comments to the Board also did) about the allocation of costs between affiliates of the Water Company and non-affiliated customers and about the payment of bills for water service by the affiliates. The Prudential Committee requested an independent audit of the finances of the Water Company, which would include both its water and sewer operations.

IV. FINDINGS

1. The Water Company provides water service in Bolton, Vermont, to more than 200 residential units and two commercial businesses and bills 169 customers² for such service under a Certificate of Public Good issued by the Board to the Water Company on September 30, 2003. Docket 6878, Order of 9/30/03; tr. 6/28/11 at 41-47 (Williams) and 67 (Norland).

2. Average daily production of the Water Company's water system during 2009 and 2010 was 29,512 gallons per day and 35,123 gallons per day, respectively. Peak daily production in 2009 and 2010 was 56,200 gallons in a day and 67,700 gallons in a day, respectively. Tr. 6/28/11 at 47-48 (Williams).

3. Larry Williams and Doug Nedde own all membership interests in the Water Company. Tr. 6/28/11 at 49-50 (Williams).

4. Mr. Williams and Mr. Nedde are also the principal owners of the BoltonValley Ski Resort, also known as Mountain Operations and Development ("MOD"), which is a customer of the Water Company. Tr. 6/28/11 at 50 (Williams).

5. The allocation of the cost of service in rates between MOD and non-affiliated customers of the Water Company is based on design flow categories for particular uses established in the Vermont Water Supply Rules as actual usage is not metered. Exh. Bolton-Williams-5 at 1-2 and 5-7; tr. 6/28/11 at 53-58 (Williams).

2. The discrepancy between the number of residential units served and the number of billed customers may result in part from the fact that the Water Company directly bills two condominium associations rather than the condominium units owners.

6. In addition to providing water service to its customers, the Water Company also provides sewer service, which is not subject to rate regulation under Vermont law. Tr. 6/28/11 at 65 (Norland); 30 V.S.A. § 203(6).

7. Certain expenses of the Water Company are allocated equally between the water division and the sewer division, including the salary and benefits of one employee and certain administrative and billing services provided by an affiliate. Tr. 6/28/11 at 65-66 (Norland).

8. The Water Company has been operating since 2007 under a temporary permit from the Vermont Department of Environmental Conservation Water Supply Division ("Water Supply Division"), which requires the Water Company to make significant improvements to its water system to address specific deficiencies. Williams pf. at 4-5; exh. Bolton-Williams-2.

9. The United States Environmental Protection Agency ("EPA") issued an Administrative Order in May 2010 requiring the Water Company to complete the design and construction of a new water supply and treatment system. Williams pf. at 7.

10. The Water Company has historically relied on surface water sources from a branch of the Joiner Brook to meet a substantial portion of its water requirements. In addition to water quality issues (related to the filtering system, disinfection byproducts, acidity and methane), there is insufficient water flow from this brook at times to meet the requirements of the water system. Tr. 6/28/11 at 14-15 (Perry); exh. Bolton-Williams-2; exh. Bolton-Williams-6.

11. The Water Company has considered and explored various alternatives to the water system improvements it is currently undertaking, including the development of new surface water supply intakes about one mile downstream on Joiner Brook or the construction of additional storage facilities, but these alternatives were rejected because of their costs and, in case of the surface water alternative, permitting concerns. In the beginning of 2006, the Water Company worked to upgrade, test and permit two existing wells (4 and 4A) near the base of the mountain with the idea that production from these wells could be added to existing surface water supplies. However, this approach did not materially improve water quality. After retaining a hydrogeologic consulting firm (Heindel and Noyes), the Water Company then hoped to meet the needs of the water system by drilling two new wells in late 2007 at convenient locations close to the existing distribution system. Neither well site produced sufficient quantities of water to be

viable. In 2008, the Water Company retained a new hydrogeologic consultant (VHB/Pioneer). After considering and rejecting other alternatives because of higher costs, the Water Company and its consultant sought to explore additional groundwater resources further down the mountain. Two additional well sites were drilled in the fall of 2009 closer to the base of the mountain and further from the existing distribution system, one of which was viable. This new well is located near the site of an existing well, the Timberline well, which provides water to nearby MOD facilities (the Timberline Lodge and the Ponds), but is not currently connected to the rest of the Water Company's water distribution system. After testing the well, the Water Company, in consultation with its hydrogeologic contractor, determined that a combination of the new well (with a permitted yield of 21 gallons per minute) and the existing Timberline well (with a permitted yield of 23 gallons per minute) together with well 4 (with a permitted yield of 9 gallons per minute) and well 4A (with a permitted yield of 4.5 gallons per minute) could provide sufficient water flow solely from groundwater sources to serve all existing demand and meet the applicable standards of the Water Supply Division (56 gallons per minute). Based on this determination, the Water Company's consultant proceeded to design and seek regulatory approvals for all the infrastructure required to treat and connect the well system. Williams pf. at 5-6; exh. Bolton-Williams-2; exh. Bolton-Williams-6; tr. 6/28/11 at 13-25 (Perry).

12. By Orders dated March 8, 2007, and October 15, 2010, the Board consented to the incurrence by the Water Company of total indebtedness of \$860,770 through borrowings from VEDA to fund improvements to the water system intended to address several deficiencies (the "VEDA Loan"). Docket No. 7268, Orders of 3/8/07 and 10/15/10.

13. The term of the VEDA Loan is 20 years with an annual interest rate of no more than three percent. The annual debt service payment obligations (principal and interest) under the VEDA Loan (once it is fully outstanding and payable) will be \$57,286. Docket No. 7268, Order of 3/8/07 at 3; exh. Joint-1-MOU-1.

14. Improvements to the water system to address the water system's deficiencies are being carried out in stages (some of which have been completed) and include groundwater exploration, well siting, drilling and testing, reservoir repairs, the rehabilitation of existing wells 4 and 4A, and the engineering, permitting and construction of infrastructure required to treat water from the

Water Company's new and existing groundwater supply sources and to connect these supply sources with the existing distribution infrastructure. Williams pf. at 5-6; exh. Bolton-Williams-4.

15. The Water Company anticipates that it will complete its water system improvements at a total cost of \$829,000 by the end of 2011 or, possibly, in 2012. Tr. 6/28/11 at 30-33 (Williams); exh. Bolton-Williams-4.

16. If the Water Company completes the water system improvements in 2011, the Water Company's debt service payment obligations on the remaining balance of the VEDA loan will commence in December 2012, and if it completes such improvements in 2012, such debt service payment obligations will commence in December 2013. Tr. (6/28/11) Williams at 32-24.

17. In the MOU, the Water Company and the Department propose a two-phase rate increase with Phase I of the rate increase taking effect upon the entry of a Board order approving the MOU (or as directed by the Board), and Phase II taking effect upon the commencement of the Water Company's debt service payment obligations on the remaining undisbursed balance of the VEDA Loan. Exh. Joint-1 at 2; tr. 6/28/11 at 96 (Koliander).

18. The rate increase proposed in the MOU for Phase I is 126.76% reflecting an annual cost of service and revenue requirement of \$125,375. Exh. Joint-1 at 1-2.

19. The Water Company is currently experiencing a revenue deficiency. Total cost of service for the year ended December 31, 2010 (the test year), was \$112,750 (not including adjustments), while test year revenue was \$54,227. Including test year adjustments, a revenue deficiency of \$71,149 (or 131%) is projected. The annual cost of service includes principal and interest payments on the portion of the VEDA Loan (\$148,940 is currently outstanding) for which debt service payments are currently required.³

20. The MOU provides for an additional 38.72% rate increase in Phase II based on an annual cost of service and revenue requirement of \$173,920, which includes annual debt service payments (principal and interest) on the VEDA loan of \$57,286. Exh. Joint-1 at 2; exh. Joint-1-MOU-1 at 3.

3. The Water Company has calculated, and will continue to calculate, its cost of service by including in its cost of service its levelized debt service payment obligations (interest and principal) on the VEDA loan and excluding from its rate base for purposes of calculating the return on capital and depreciation expense any plant in service financed by the VEDA loan proceeds. Exh. Joint-1-MOU-1; tr. 6/28/11 at 81 (Koliander).

21. The Phase II rate increase relates solely to increases in the debt service payment obligations under the VEDA Loan and in the gross revenue tax related to the additional revenue from the rate increase. Tr. 6/28/11 at 95-96 (Koliander).

22. The MOU provides that the Water Company will give the Department, the Board and its ratepayers 45 days advance notice prior to implementing Phase II of the rate increase. Exh. Joint-1 at 3.

23. The MOU provides for the Water Company to file a rate design proposal within 30 days after Board approval of the MOU. Exh. Joint-1 at 2,

24. The addendum to the MOU, dated June 29, 2011, provides that: "If the Board approves the revenue requirement for Phase 2, and if there is no rate design order from the Board, the Department agrees that the Water Company can increase Phase I rates by 38.72%. If the Board approves the revenue requirement for Phase II, and there is a rate design order from the Board, the Department agrees to allow the Company to increase the adjusted Phase I rates in accordance with the rate design order to recover the approved Phase 2 revenue requirement (38.72%)." Exh. Joint-2.

25. The MOU provides for a Reserve Fund Account that will include the annual balance of all unexpended funds allocated for repairs, testing, chemicals and supplies in the cost of service (\$17,615). The MOU also provides that within 30 days after the entry of a Board order approving the MOU, the parties will submit a proposed escrow agreement to the Board for its approval. Funds accumulated in the Reserve Fund Account will be used solely for improvements to the system. The MOU also provides for quarterly reports to the Department and the Board related to the Reserve Fund Account and for advance notice by the Water Company to the Department, except in emergency situations, before making any expenditures from the Reserve Fund Account. Exh. Joint-1 at 3.

V. DISCUSSION

Under order of the EPA and a temporary permit issued by the Water Supply Division, the Water Company is required to make substantial improvements to its water system to address certain water quality and quantity issues. In addition, the Water Company currently has a revenue deficiency as its cost of service significantly exceeds revenue from its water service

operations.⁴ Accordingly, a rate increase is necessary in order for the Water Company to provide adequate and efficient service.

The Department's recommendation and support for the proposed rate increases as set forth in the MOU provide a strong basis for approving the proposed Phase I revenue requirement and rates and, at least in principle, the proposed Phase II revenue requirement and rates set forth in the MOU. However, before reaching any conclusion as to the justness and reasonableness of the proposed rates, some review and consideration of the appropriateness of the costs of the planned and completed improvements and of certain circumstances particular to this water company is warranted, namely: (i) whether there are lower-cost alternatives to the contemplated improvements to address the water system's deficiencies; (ii) whether the costs of the water system have been appropriately allocated between the Water Company's affiliated and non-affiliated customers, and; (iii) whether the Water Company's costs have been appropriately allocated between its water service operations and its non-rate-regulated sewerage operations.

Given the size of the water system, the cost of planned improvements to the water system are substantial with a total project cost of \$829,000.⁵ All the project costs will be financed by a low-interest, 20-year loan from VEDA as part of the State's Drinking Water Revolving Loan Fund program.⁶ The testimony of Mr. Perry and Mr. Williams described the decision-making process and the various alternatives the Water Company explored to address the water system's deficiencies. There is no evidence in the record as to the availability of a lower-cost solution to the planned improvements through which the Water Company could have cured these deficiencies.

The Water Company is owned by Mr. Williams and Mr. Nedde, who are also the principal owners of MOD. Water usage by MOD facilities is not metered. Instead, the allocation

4. The Water Company's existing rate schedule was approved in 2003 following the issuance of a CPG and the Water Company's acquisition of the assets of Bolton Valley Water and Sewer Company, Inc. ("BVWSC"). Rates in the existing rate schedule are the same as they were in BVWSC's previous rate schedule. Essentially, there has been no rate increase for water service customers since at least 2001, when BVWSC's water rates became effective.

5. Exh. Bolton-Williams-4.

6. Williams pf. at 9.

of costs between MOD and non-affiliated customers of the Water Company is based on design flow categories for particular usages set forth in the Water Supply Division's Water Supply Rules. Under the Water Company's proposed general rate tariff for Phase I, MOD's annual charges for water service will be \$45,418, or about 36% of the total annual cost of service and revenue requirement of \$125,375. Although there is no ability to measure the extent to which actual water usage by MOD may be greater or less than 36% of the water system's total usage, Mr. Williams indicated at the technical hearing that he believes that MOD probably accounts for less than 36% of the system's total water consumption. Mr. Williams testified that he suspects that design flow usages significantly overestimate MOD's actual water usage because of the seasonal nature of MOD's business.⁷ The parties, as well as any intervenors, will have the opportunity to raise and address any concerns about the allocation of the cost of service among ratepayers as part of any proceeding related to the Water Company's rate design proposal, which the Water Company has agreed to file within thirty days after the entry of this Order.⁸

Many of the public comments the Board has received from customers of the Water Company have expressed concern not only about the very significant rate increase in the Water Company's tariff filing, but also about what are perceived to be very high sewer rates. Under Vermont law, the Board has no legal authority to assess the reasonableness and fairness of the sewer rates charged by the Water Company.⁹ However, the Board does have the authority to ensure that costs related to sewage services provided by the Water Company are not included in the cost of water service and water rates. In her testimony, Ms. Norland indicated that expenses are generally allocated between the water and sewer divisions based on whether the expense relates to water or sewer services. The costs of consulting services provided to the Water

7. Tr. 6/28/11 at 59 (Williams). In her testimony, Ms. Martin noted that water usage may also be overestimated for the Black Bear Inn and many of the residential units served by the Company since they are occupied on a seasonal basis. Tr. 6/28/11 at 102-103 (Martin).

8. The letter of Bolton Fire District #1 Prudential Committee, filed with the Board on May 19, 2011, as well as other comments received by the Board, raised additional issues about whether MOD facilities are paying an appropriate share of the costs of the water system, which could be considered in the review of the Water Company's rate design proposal. See "Public Hearing and Comments" above.

9. Section 203(6) of Title 30 provides that the Board shall only have jurisdiction over permitted sewage companies "which, together with affiliates, service 750 or more household or dwelling units."

Company are allocated between the two divisions based on the time records of the consultant. Some of the Water Company's operating expenses (most notably, the salary and benefits of one employee and certain administrative and billing services provided by an affiliate) are split 50/50 between the water and sewer divisions of the Water Company.

The aggregate 220% rate increase proposed in the MOU is still very substantial, but is less than the 269% percent rate increase proposed in the Water Company's original tariff filing and this rate increase will now take effect in two phases, with the second phase of the rate increase not becoming effective until December 2012 at the earliest. While the size of the rate increase will still have a significant impact on customers of the Water Company, such rate increases, regrettably, are not unusual for small water companies that must make significant capital improvements to their infrastructure and have otherwise long delayed filing for necessary rate increases to meet increases in their costs of service.

Completion of the planned improvements to the water system should ameliorate many of the concerns and frustration of customers about the quality of the product and service. Ratepayers will also receive the benefit in rates of the very favorable terms of the VEDA Loan that is being provided to fund the improvements to the water system under the State's Drinking Water Revolving Loan Fund program, most notably the 3% interest rate.

The determination of the cost of service in the supporting exhibit to the MOU deviates from a traditional cost of service in certain respects. The Water Company has calculated, and will continue to calculate, its cost of service by including in its cost of service its levelized debt service payment obligations (interest and principal) on the 20-year VEDA loan and excluding from its rate base for purposes of calculating depreciation expense and the return on capital any plant in service financed by the VEDA loan proceeds. In his testimony, Mr. Koliander noted that the Water Company's proposed cost of service represents "a combination of rate base rate of return and debt service coverage practices."¹⁰ The cost of service includes depreciation expense and a capital return only on that portion of its existing net plant in service that was not funded by the VEDA Loan. In many ways, this method of determining the cost of service for a small water company receiving a long-term VEDA loan (with levelized annual payments made up of varying

10. Tr. 6/28/11 at 79-80 (Koliander).

annual amounts of principal and interest as in a traditional home mortgage) seems appropriate both for the Water Company and ratepayers as it is more closely tied to the actual cash flow of the Water Company.¹¹ It also makes it clearer to VEDA that annual rate revenue of the Water Company will be sufficient to meet debt service payment obligations on the VEDA Loan, which is one of VEDA's conditions to making the VEDA Loan. However, in approving the "bottom line" cost of service, revenue requirement and rate increase, the Board may not wish to make any definitive conclusion at this time as to the appropriateness of the method of determining the cost of service utilized in the MOU.

Both the existing and proposed General Rate Tariff provide for metered rates. None of the Water Company's customers currently have meters, and the Company has not received any requests from customers to install meters and switch to metered rates. The Company will need to be prepared once the Phase I rate increase is effective for customer requests to install a meter. Mr. Koliander stated that one aspect of the Water Company's rate design proposal will likely involve an adjustment of metered rates to provide for a higher base rate.¹²

VI. CONCLUSION

On the basis of the foregoing, I conclude that the proposed rates as set forth in the MOU and the supporting exhibit are just and reasonable. The rate increases will allow the Water Company to generate sufficient revenue to eliminate current operating deficiencies, to meet its cost of service, and to make necessary improvements to its water system.

I recommend that the Board approve the proposed Phase I revenue requirement and rates (subject to the condition that the Water Company file a General Rate Tariff for Phase I with the

11. There is also an additional benefit to ratepayers in that debt service payments are not required until the end of the year after the funded improvements are completed, while the Water Company would begin to incur depreciation expense as soon as these improvements were placed in service. On the other hand, the useful life for the improvements is longer than the 20-year term of the VEDA Loan so that annual debt service obligations may be somewhat in excess of average annual depreciation expense and the capital return on the improvements if they were included in rate base during the term of the VEDA Loan. However, as Mr. Koliander confirmed in his testimony, ratepayers will have fully paid for the VEDA funded improvements by the end of the term of the VEDA Loan. Tr. 6/28/11 at 81-82 (Koliander).

12. Tr. 6/28/11 at 91-92 (Koliander). Ms. Martin indicated in her testimony that she would like the Water Company to include a timeline in its tariff for the approval process for a meter installation. Tr. 6/28/11 at 100 (Martin).

Board consistent with the exhibit to the MOU within ten days after the entry of this Order) and approve, in principle, the proposed Phase II revenue requirement and rates as set forth in the MOU.¹³

I also recommend that the Board approve the establishment of a Reserve Fund Account as described in the MOU, require the Water Company to file its anticipated rate design proposal within 30 days after the entry of this Order, and require the Water Company to file with the Board a General Rate Tariff for Phase II, with notice to the Department and its ratepayers, at least 45 days prior to the effective date of such tariff.

This proposal for decision is provided to the Board pursuant to 30 V.S.A. § 8(c). Based on discussions with the representatives of the Water Company and the Department at the technical hearing, I do not believe this proposal for decision is adverse to the interests of any party. Accordingly, this proposal for decision has not been served upon the parties for comment under 3 V.S.A. § 811.

Dated at Montpelier, Vermont, this 8th day of July, 2011.

s/Lars Bang-Jensen
Lars Bang-Jensen
Hearing Officer

13. Given the anticipated rate design filing between the effectiveness of Phase I and Phase II rates and the absence of a certain effective date for the Phase II rates, a definitive General Rate Tariff for Phase II that could be approved by the Board does not exist at this time.

VII. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusions and recommendations of the Hearing Officer are adopted.
2. Catamount/Bolton Water and Sewer Company, LLC ("Water Company") is entitled to rates that will produce annual revenue of \$125,375, and the Board hereby approves a rate increase of 126.76% as set forth in the exhibit to the MOU effective as to service rendered on or after the date of entry of this Order.
3. The Water Company shall file a revised General Rate Tariff with the Board in conformity with this Order as it relates to the Phase I rate increase within ten days after the entry of this Order.
4. The Water Company will be entitled to rates that will produce annual revenue of \$173,920 once all planned water system improvements are placed in service and debt service payments commence on the currently undisbursed portion of the Water Company's \$860,770 loan from the Vermont Economic Development Authority, which is being used to fund these improvements. The Board approves in principle the proposed Phase II additional rate increase of 38.72% as set forth in the MOU to take effect in December of the year after the water system improvements are completed and placed in service. The Water Company shall file with the Board, with notice to the Department and its ratepayers, a General Rate Tariff reflecting the Phase II rate increase that includes the effective date for such rate increase 45 days in advance of its effective date.
5. The Water Company shall file its rate design proposal within 30 days after the entry of this Order.
6. The Board approves the establishment of a Reserve Fund Account upon the terms set forth in the MOU. Within 30 days after the entry of this Order, the parties shall file a proposed escrow agreement with the Board. The Reserve Fund Account shall include the annual balance of all unexpended funds allocated for repairs, testing, chemicals and supplies in the cost of service (\$17,615). Funds accumulated in the Reserve Fund Account shall be used solely for improvements to the water system. The Water Company shall not make any expenditures from

the Reserve Fund Account without advance notice to the Department, except in emergency situations, in which case notice shall be given as soon as feasible. The Water Company shall submit quarterly reports to the Department and the Board related to the Reserve Fund Account.

Dated at Montpelier, Vermont, this 8th day of July, 2011.

<u>s/James Volz</u>)	
)	
)	PUBLIC SERVICE
<u>s/David C. Coen</u>)	
)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: July 8, 2011

ATTEST: s/Judith C. Whitney
Deputy Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.